



**NEW JERSEY DEPARTMENT OF  
TRANSPORTATION  
BUREAU OF AUDITING  
EXTERNAL AUDIT SECTION**

**REVIEW PROGRAM  
FOR  
RAILROADS**

COMPANY:

STATE PROJECT #:

FAP NO.:

PHASE

All deviations from the standard review work program have been discussed with, reviewed by and approved by:

Supervisor's Name:

Title:

Date:

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BUREAU OF AUDITING  
REVIEW PROGRAM

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DATE \_\_\_\_\_



## **GENERAL CONSIDERATIONS**

### **NOTE TO THE AUDITOR**

The following review program is not all-inclusive but is presented as a guide for the auditor to use in performing an audit of a railroad project. The auditor, based upon their experience and the situations as they arise, may have to amend the procedures in order to meet the requirements of the audit.

If additional procedures are required, they should be added to the appropriate section(s) of the review program. Each review program procedure must contain a notation that it was performed. For any procedure not performed an explanation must be included.

### **COMPLIANCE CRITERIA**

The regulations applicable to the close out of a railroad project are the terms of the State/Railroad Agreement(s) which should include, at a minimum, 48 CFR 31, 23 U.S.C. 112, the Federal Aid Policy Guide Title 23 CFR Part 140i, and/or Part 646.

### **ERRORS, IRREGULARITIES, AND ILLEGAL ACTS**

The Field Work Standards of the Government Auditing Standards require that steps and procedures be designed to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material impact. The steps contained herein are intended to provide this reasonable assurance.

Additional steps and procedures are to be devised if the auditor has reason to believe that fraud, abuse, or improper or illegal acts may exist.

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



## **REVIEW PROGRAM FOR RAILROADS**

<b>TABLE OF CONTENTS</b>	<b><u>PAGE</u></b>
PLANNING PHASE AND AUDIT OBJECTIVES	D-4
REVIEW AND EVALUATION OF INTERNAL CONTROLS	D-5
LABOR	D-6
BUY AMERICA	D-6
MATERIALS	D-7
TEMPORARY MATERIALS	D-8
SALVAGE	D-9
SCRAP	D-9
EQUIPMENT	D-10
SUBCONTRACTORS	D-12
MISCELLANEOUS COSTS	D-12
OTHER COMPLIANCE REQUIREMENTS	D-13

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



**I. PLANNING PHASE AND AUDIT OBJECTIVES**

1. Review agreement(s) and highlight important sections, such as:
  - a. Work to be performed.
  - b. Estimated cost.
  - c. Authorizations or approvals required.
2. Compare authorization dates to the date work began. Any costs incurred prior to the date to proceed are unallowable.
3. Summarize the railroad billings by each cost category:
  - a. Set up a summary sheet with estimated costs, costs presented, audit adjustments, and as adjusted columns for each cost category.
  - b. Compare costs per the billing and estimate in order to determine areas where variances occur. If total billed costs exceed estimated costs, check with contract administrator for overrun approval, supplemental agreement, et al.
4. Review adjustments for propriety and obtain the necessary documentation to support the adjustments.
5. The audit objectives should evaluate and determine that costs included in rate computations are actual, allowable, allocable, and reasonable. Costs should be consistently treated in the railroad cost accounting system.

Initials/Date	WP Reference

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



## II. **REVIEW AND EVALUATION OF INTERNAL CONTROLS**

### **BACKGROUND**

Generally accepted government auditing standards require that we obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed.

This involves only those major internal controls over the areas of interest to use on contracts with the New Jersey Department of Transportation. This is generally limited to the control system for job costing and those accounts and elements that comprise the direct job cost accounts (which may also include some revenue accounts).

We are generally concerned that the company has an adequate system for recording employee time and other direct project costs and their billing of these to the Department. Additional concerns are that their accounting system has an adequate job cost accounting system including proper segregation of direct and indirect costs.

The extent of your testing will be determined by the adequacy of the internal controls.

1. The auditor should review prior audits (if applicable) for information related to the internal control structure.
2. Review the permanent file (if applicable) on the company for information on the firm's internal control structure.
3. Obtain an understanding of the internal control structure through the Internal Control

Initials/Date	WP Reference

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



Questionnaire (ICQ), flow charts, and survey interviews. The ICQ must be completed by the railroad & reviewed by the CPA firm. The preliminary evaluation must be summarized including your conclusions as to the expected reliability of the internal control structure.

4. Correlate your reliance/non-reliance on the internal control structure to your level of testing of labor and/or direct costs.

### III. **LABOR**

1. Choose a representative sample of labor hours and trace to the original approved employee timesheets.
2. Trace hourly rates to payroll documentation.
3. Ensure overtime is approved and appears reasonable. In addition, there should be an equitable distribution of overtime between internal projects and amounts charged to a DOT project.

### IV. **BUY AMERICA**

1. For all railroad agreements executed after December 31, 2013 that have federal funding, ensure the railroad complied with all applicable Buy America requirements as set forth in 23 U.S.C. 313 and 23 CFR 635.410.

Initials/Date	WP Reference

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



Initials/Date	WP Reference

**V. MATERIALS**

1. Prepare a major materials analysis (for both permanent and temporary materials):
  - a. Compare the following quantities for installations and removals: Estimated vs. Billed.
  - b. Investigate significant variances.
  - c. Were materials purchased through competitive bidding? Or if under existing continuing contracts, at a reasonable cost?
2. Materials (from Stores):
  - a. Choose a representative sample of materials billed and trace quantities (including condition of materials, i.e., new, fit, salvage) to the appropriate documentation.
  - b. Trace unit prices to company inventory records or to the prior audit.
  - c. Ensure material handling charge is in accordance with Federal regulations.
  - d. Ensure sales/use tax is not charged to fit (used) rail.

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



3. Materials (Outside Vendors):

- a. Trace a representative sample of outside materials quantities to the appropriate documentation.
- b. Trace payments of sampled invoices to cash disbursement vouchers payable records noting dates paid and check numbers. In addition, trace payment of invoices to cancelled checks, if feasible.

**VI. TEMPORARY MATERIALS BILLED (if applicable):**

- Billed materials recovered from temporary use and accepted for reuse by the company shall be credited to the project at prices charged to the job less a consideration for loss in service life at: (FAPG 23 CFR Sec.140.908(c)(1)).
  - a. 10% for rails, angle bars, tie plates, and metal turnout materials.
  - b. 15% for all other materials.
- 1. Choose all major materials (rail, rail anchors, spikes, tie plates, joint bars, et al.) removed per the billing and trace quantities (including condition of materials, i.e., new, fit, salvage) to the appropriate documentation.
- 2. Ensure material handling charge is in accordance with Federal regulations.
- 3. If no credit is given, it will be necessary to compute the temporary materials credit using the above information.

Initials/Date	WP Reference

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_





Initials/Date	WP Reference

**VII. SALVAGE (if applicable):**

Materials recovered from the permanent facility of the company that are accepted for return to stock shall be credited to the project at current stock prices of such used material (FAPG 23 CFR Sec.140.908(c)(1)).

If the company does not have current stock prices of used materials, then the salvage credit is computed at 70% of the value of the new materials per billing.

1. Choose all major materials (rail, rail anchors, spikes, tie plates, joint bars, etc.) salvaged per the billing and trace quantities (including condition of materials, i.e., new, fit, salvage) to the appropriate documentation.
2. Trace unit prices to company inventory records or to the prior audit.
3. Ensure material handling charge is in accordance with Federal regulations.
4. If a salvage credit is not given, it will be necessary to compute the credit for salvage using the above information.

**VIII. SCRAP (if applicable):**

Materials recovered from the permanent facility and not accepted for reuse by the company, if determined to have a net sale value, shall be sold by the State or the railroad. If the company practices a system of periodic disposal by sale, credit to the project shall be at the going prices supported by the records of the company (FAPG 23 CFR Sec. 140.908(c)(2)).

STATE OF NEW JERSEY	PREPARED BY _____
DEPARTMENT OF TRANSPORTATION	DATE _____
BUREAU OF AUDITING	REVIEWED BY _____
REVIEW PROGRAM	DATE _____

D-9



1. **[RAIL]** Check scrap credit amount by using the following computation:

Number of feet of rail DIVIDED by 3 feet per rail  
 TIMES the number of pounds per rail DIVIDED by  
 2240 pounds (net ton) TIMES the scrap price per net  
 ton.

For scrap prices, trace unit price to scrap vendor  
 invoice or, compare prices given by other railroads or  
 American Metal Market prices on file.

2. **[OTHER TRACK MATERIALS]** Check scrap  
 credit amount by using the following computation:

Number of pounds of other track materials DIVIDED by  
 2240 pounds (net ton) TIMES the scrap price per net  
 ton.

For scrap prices, trace unit price to scrap vendor  
 invoice or, compare prices given by other railroads or  
 American Metal Market prices on file.

3. If no scrap credit is given but a credit is due,  
 calculate scrap credit for **rail** based on Step 1.  
 above and/or for **other track materials** based on  
 Step 2. above.

## IX. **EQUIPMENT**

1. Equipment (Company Owned):
  - a. Choose a representative sample and trace  
 equipment hours to the appropriate  
 documentation.
  - b. Determine basis of billing rates. Allowable  
 rates are to be in accordance with:
    - 1) actual audited rates or provisional  
 rates approved by the FHWA.

Initials/Date	WP Reference

STATE OF NEW JERSEY  
 DEPARTMENT OF TRANSPORTATION  
 BUREAU OF AUDITING  
 REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
 DATE \_\_\_\_\_  
 REVIEWED BY \_\_\_\_\_  
 DATE \_\_\_\_\_



- 2) rates submitted to the NJDOT and approved for use pending audit.
- 3) If there are no actual or provisional rates available then use:
  - a) the U.S. Army Corps of Engineers "Construction Equipment Ownership and Operating Expense Schedule" or
  - b) the "Blue Book for Railroad Equipment" and "Rental Rate Blue Book" developed by Dataquest using the rate adjustment tables which eliminates unallowable factors contained in the original monthly rate.

2. Equipment (Company Rented):

- a. Choose a representative sample and trace hours as in 1a, above.
- b. Trace hourly rates to paid invoices.
- c. Trace payment to cash disbursement vouchers payable records noting date paid and check number. In addition, trace to cancelled checks, if feasible.
- d. Were materials rented from the lowest qualified bidder? Or if under existing continuing contracts, at a reasonable cost?

Initials/Date	WP Reference

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



- e. Ensure rented equipment used on multiple projects is equitably allocated amongst all benefitting projects.

## **X. SUBCONTRACTORS**

Choose a representative sample of subcontractors costs billed and perform the following tests:

1. Verify to invoices.
2. Verify to cancelled checks when practical.
3. \*Compare work performed per the billings to the appropriate audit documentation, and if the work is for installation of materials, compare the quantities installed per the subcontractors billing to the material quantities per the appropriate documentation and the agreement estimate. For Cost Plus work, labor, equipment, and/or materials analyses depending upon materiality should be performed.

## **XI. MISCELLANEOUS COSTS**

1. Travel and Business (if material):
  - a. Choose a representative sample and trace amounts to employee expense reports.
  - b. Sample days to labor reports.
  - c. Eligible reimbursements should be limited to the lesser of actual cost, a rate representative of actual cost, or the limitations set forth in the Federal Travel Regulation. Vehicle mileage must

Initials/Date	WP Reference

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_



be supported by an expense report showing the employee name, dates of travel, location of departure and arrival, purpose of the trip, total miles driven, and the applicable mileage rate. The reports must have both the employee and supervisor signatures.

Airfare reimbursement is limited to the lowest coach-class or equivalent fare available subject to FAR 31.205-46(a)(7)(b). Airfare must be supported by source documentation such as an e-ticket or a boarding pass.

**XII. OTHER COMPLIANCE REQUIREMENTS**

1. Perform any other procedures required as determined necessary under the circumstances, and note below.

Initials/Date	WP Reference

STATE OF NEW JERSEY  
DEPARTMENT OF TRANSPORTATION  
BUREAU OF AUDITING  
REVIEW PROGRAM

PREPARED BY \_\_\_\_\_  
DATE \_\_\_\_\_  
REVIEWED BY \_\_\_\_\_  
DATE \_\_\_\_\_